

## Message Text

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ACTION NEA-10

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INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 3091

S E C R E T TEL AVIV 6405

E.O. 11652: GDS

TAGS: EAID, IS

SUBJECT: U.S. ASSISTANCE TO ISRAEL--FINANCING REQUIREMENTS FOR  
1977-79

REFS: (A) TEL AVIV 6340; (B) TEL AVIV 6144; (C) TEL AVIV 6067;  
(D) TEL AVIV 4279

1. REF A REPORTED ON THE AMBASSADOR'S MEETING WITH FINANCE  
MINISTER RABINOWITZ ON SEPTEMBER 14 TO RECEIVE THE GOI PAPER  
OUTLINING ISRAEL'S FINANCING REQUIREMENTS. THIS MESSAGE  
PROVIDES GREATER DETAIL ON THE DISCUSSION AS WELL AS OUR  
OWN COMMENT ON ISRAEL'S FOREIGN EXCHANGE POSITION.

2. ECONOMIC ADVISOR DOVRAT, WHO ACCOMPANIED THE MINISTER,  
EXPLAINED SEVERAL CHANGES IN ISRAELI ESTIMATES WHICH HAD  
BEEN MADE SINCE OMB DIRECTOR LYNN'S VISIT IN JUNE. FIRST  
OF ALL, THE ESTIMATE OF THE 1976 BALANCE OF PAYMENTS DEFICIT  
HAS BEEN REDUCED BY \$300 MILLION, OF WHICH \$190 MILLION DE-  
RIVES FROM IMPROVEMENTS IN THE TRADE SECTOR. HE SAID THAT,  
ON CAPITAL ACCOUNT, THEY HAD EARLIER IN THE YEAR PLANNED  
TO REPAY \$120 MILLION IN SHORT-TERM DEBT. IT WAS NOW  
CLEAR, HOWEVER, THAT THIS REPAYMENT COULD NOT TAKE PLACE  
UNTIL 1978 OR 1979 WITHOUT A DRAWING DOWN OF RESERVES

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BELOW THE CRITICAL LEVEL. THEY HAD ALSO PLANNED TO RE-

PLACE SOME OF THE SHORT-TERM DEBT WITH MEDIUM-TERM BORROWING, BUT THIS HAD NOT PROVED POSSIBLE. DOVRAT NOTED THAT THE PAPER ASSUMES NO CHANGE IN THE LEVEL OF RESERVES OVER THE NEXT SEVERAL YEARS. SINCE INFLATION WILL IN FACT ERODE THIS SUM, THEY MAY HAVE TO INCREASE THE LEVEL OF RESERVES IN ORDER TO COVER THE DESIRED QUANTITY OF IMPORTS.

3. REFERRING TO THE "UNCOVERED DEFICIT" FIGURES IN TABLE I OF THE PAPER, DOVRAT SAID THAT SINCE U.S. FISCAL YEARS COINCIDE WITH NEITHER THE CALENDAR YEARS SHOWN IN THE TABLE NOR WITH ISRAELI FISCAL YEARS, THERE COULD BE SOME SHIFTING BACK AND FORTH AS HAD HAPPENED IN THE PAST. FOR EXAMPLE, THE DEFICIT OF \$705 MILLION SHOWN FOR CY-77 COULD BE DRAWN DURING THE FIRST QUARTER OF OUR FY-78.

4. WHEN ASKED IF THE GOI DECISION NOT TO PLACE NEW DEFENSE ORDERS FROM THE "PRIME MINISTER'S LIST" IN 1977 (REF B) WAS REFLECTED IN THE PAPER, DOVRAT REPLIED THAT THE DECISION WAS UNLIKELY TO REDUCE FINANCING REQUIREMENTS VERY MUCH. HE SAID THERE MIGHT BE ADVANCE PAYMENTS ON PURCHASES OF EQUIPMENT FROM THE "CONSOLIDATED LIST" AND THERE WOULD OF COURSE BE PAYMENTS ON PREVIOUS ORDERS AND PURCHASES OF FOLLOW-ON EQUIPMENT. (THE PAPER SHOWS PAYMENTS FOR MILITARY EQUIPMENT FROM THE STILL-TO-BE APPROVED CONSOLIDATED LIST AS BEGINNING IN CY-78.) WHEN ASKED ABOUT THE MIX OF GRANTS AND LOANS CONTEMPLATED FOR THE COMING YEARS, DOVRAT WOULD SAY ONLY THAT THE PAPER ASSUMES THAT ONE-HALF OF U.S. ASSISTANCE WOULD BE IN THE FORM OF GRANTS.

5. AT THE END OF THE MEETING RABINOWITZ WAS ASKED ABOUT PRESS REPORTS THAT THE GOVERNMENT, HISTADRUT AND MANUFACTURERS' ASSOCIATION ARE WORKING ON AN AGREEMENT UNDER WHICH THE GOVERNMENT WOULD NOT REDUCE FOOD SUBSIDIES, LABOR WOULD GIVE UP ITS FORTHCOMING COST OF LIVING ADJUSTMENT AND INDUSTRY WOULD NOT INCREASE PRICES. THE MINISTER REPLIED THAT THIS WAS "ONLY A DREAM" AT THE MOMENT. THE MAIN OBSTACLE, HE SAID, WAS HISTADRUT WHICH WAS NOT YET

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READY TO AGREE TO A REDUCTION IN THE WORKERS' STANDARD OF LIVING.

6. EMBASSY'S COMMENT: THIS YEAR'S AID "REQUEST", WHICH IS NORMALLY PRESENTED IN JANUARY, CONTAINS NO SURPRISES. IT IS AN UPDATE OF EARLIER ESTIMATES PRESENTED TO VARIOUS U.S. OFFICIALS AND PARTIALLY LEAKED TO THE PRESS OVER THE LAST SEVERAL MONTHS. THE TRADE DATA CONFORM TO THOSE RE-

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IN REF C; THE FMS PAYMENTS SCHEDULE IS IN LINE WITH  
RECENT INFORMATION GIVEN TO U.S. OFFICIALS AND TO THE  
EMBASSY (REF B)

7. RABINOWITZ TOLD THE AMBASSADOR THAT ISRAEL HAS A  
PROGRAM TO REDUCE ITS BOP DEFICIT BY \$300 MILLION PER  
YEAR UP TO 1980. WE BELIEVE THAT THIS IS A MINIMUM GOAL  
AND IS DEFINITELY ACHIEVABLE. TRADE PERFORMANCE SO FAR  
THIS YEAR IS FIRMLY ON THIS COURSE. UNFORTUNATELY, THE  
BOTTOM LINE FIGURES IN THE PAPER DO NOT FULLY REFLECT  
RABINOWITZ'S BOP PROJECTIONS.

8. THE DESIRED LEVEL OF U.S. ASSISTANCE IS PLAINLY  
STATED IN THE PAPER AS AVERAGING ABOUT \$2.3 BILLION  
OVER THE NEXT SEVERAL YEARS, OF WHICH \$1.5 BILLION WILL  
BE SPENT FOR DIRECT MILITARY IMPORTS FROM THE UNITED  
STATES. THE ISRAELIS PLAN TO SPEND AT THIS LEVEL NEXT  
YEAR, DESPITE OUR FY-77 PACKAGE OF \$1.8 BILLION, BY DRAW-  
ING ON FY-78 FUNDS DURING THE LAST QUARTER.

9. AS STATED IN REF D, WE BELIEVE THAT ISRAEL CAN DO  
MORE TO REDUCE ITS DEPENDENCE ON U.S. ASSISTANCE.  
WE ARE NOT RECOMMENDING DRASTIC STEPS, PARTICULARLY GIVEN  
THE CURRENT LABOR UNREST AND OTHER PROBLEMS BESETTING  
THE RABIN GOVERNMENT. STILL, THERE IS LITTLE DOUBT  
THAT THE GENEROUS U.S. ASSISTANCE OVER THE LAST FEW  
YEARS HAS PERMITTED THE POSTPONEMENT OF PAINFUL BUT  
LONG-OVERDUE ECONOMIC DECISIONS. SINCE ISRAEL'S NEED  
FOR U.S. ASSISTANCE IS PRIMARILY RELATED TO ITS DEFENSE  
REQUIREMENTS, WE BELIEVE THAT OUR AID SHOULD BE INCREAS-  
INGLY DIRECTED TO THE FINANCING OF ESSENTIAL MILITARY  
IMPORTS. THE CIVILIAN ECONOMY IS RELATIVELY STRONG AND  
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GROWING; EXPORTS AND TOURISM ARE SHOWING COMMENDABLE  
GROWTH. WE BELIEVE THAT ISRAEL CAN ELIMINATE ITS NEED  
FOR NON-MILITARY ASSISTANCE BEFORE MINISTER RABINOWITZ'S  
TARGET DATE OF 1980 AND THAT IT SHOULD BE ENCOURAGED  
TO DO SO.  
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